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Cost-Benefit Analysis of Road Concessions in Colombia

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ABSTRACT

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Since the beginning of the 1990s, Colombia's government has developed its national road network through concession models with private partners. The first three generations of concessions comprised a total of 22 projects to be executed along the country in different stages. They faced several problems, being the constant and costly renegotiations the evident cause of breaches to the contracts. This study aims to find out the impact to the country of the second and third generations of road concessions through a cost-benefit analysis (CBA). For this purpose, a benefit-cost ratio (BCR) was computed, considering scenarios with and without the additions to the contracts. It was found out that only 5 out of 11 projects analyzed had positive BCRs without renegotiations. After those were included, all projects became economically unviable under the conditions considered, stressing the impact of additions in the total costs of the projects. Unless environmental benefits and positive externalities not considered in the study accounted for values that balanced the total costs, most projects were not viable under a CBA and renegotiations worsened their position. Overall, renegotiations also need to be understood outside an economic analysis, as they were often used a tool to comply with the requirements of projects that were adjudged to private parties without assuring proper guarantees from their side.

Keywords: Colombia, concessions, renegotiations, CBA, BCR